

*Provo Gas Producers Limited
Annual Report
1963*

Provo Gas Producers Limited
Annual Report
 1963

COMPARATIVE HIGHLIGHTS

Financial

	1963	1962
Gross Income (after royalties)	\$2,821,432	\$2,558,625
Operating Income (after operating and administrative expenses)	2,100,238	1,940,716
Operating Income per share	27¢	25¢
Net Income (after all charges)	753,463	495,259
Net Income per share	10¢	6¢
Working Capital (Deficit)	(365,595)	(75,163)
Long Term Debt	4,918,500	3,626,500
Investments in Affiliated Companies	2,739,342	1,584,207
Shares Outstanding	7,815,566	7,815,566

Operating

Gas Production (million cubic feet)	17,754	16,870
Oil Production (net barrels)	425,080	362,184
Proved Gas Reserves (billion cubic feet)	547	564
Proved Oil & Condensate Reserves (net barrels)	6,985,000	5,854,000
Net Gas Wells	57	54
Net Oil Wells	59	51
Acreage — Gross	5,127,520	4,991,393
Acreage — Net	1,232,287	1,159,497

DISTRIBUTION
 OF PROVO'S
 SHAREHOLDERS
 & SHARES

SHAREHOLDERS

4,051

56% CANADA 73%

3,054

43% U.S.A. 26%

60

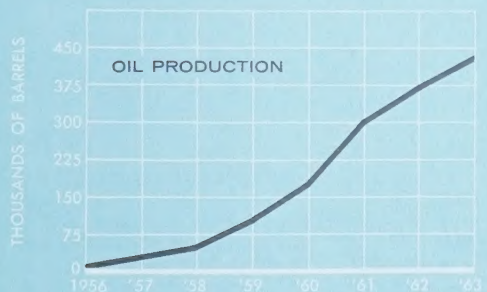
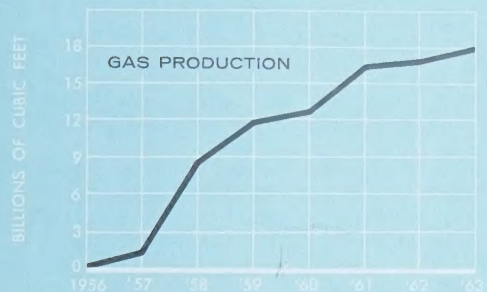
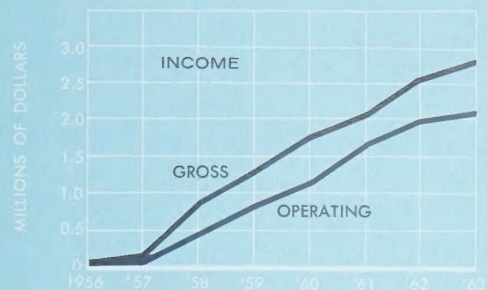
1% OTHERS 1%

SHARES

5,690,493

2,034,463

90,610



HEAD OFFICE:

706 - Seventh Avenue S.W., Calgary, Alberta

DIRECTORS:

D. R. ANNETT Toronto, Ontario
 D. C. COLLIN Calgary, Alberta
 B. H. COREY Calgary, Alberta
 C. S. DUNKLEY Calgary, Alberta
 J. P. GALLAGHER Calgary, Alberta
 W. V. MACINNES Toronto, Ontario
 C. W. MICHEL New York, N.Y.
 W. E. RICHARDS Calgary, Alberta
 D. M. WOLCOTT Calgary, Alberta

OFFICERS:

J. P. GALLAGHER *President*
 D. M. WOLCOTT *Vice-President*
 W. E. RICHARDS *Secretary*
 H. T. ASTLE *Treasurer*

REGISTRAR AND TRANSFER AGENT:

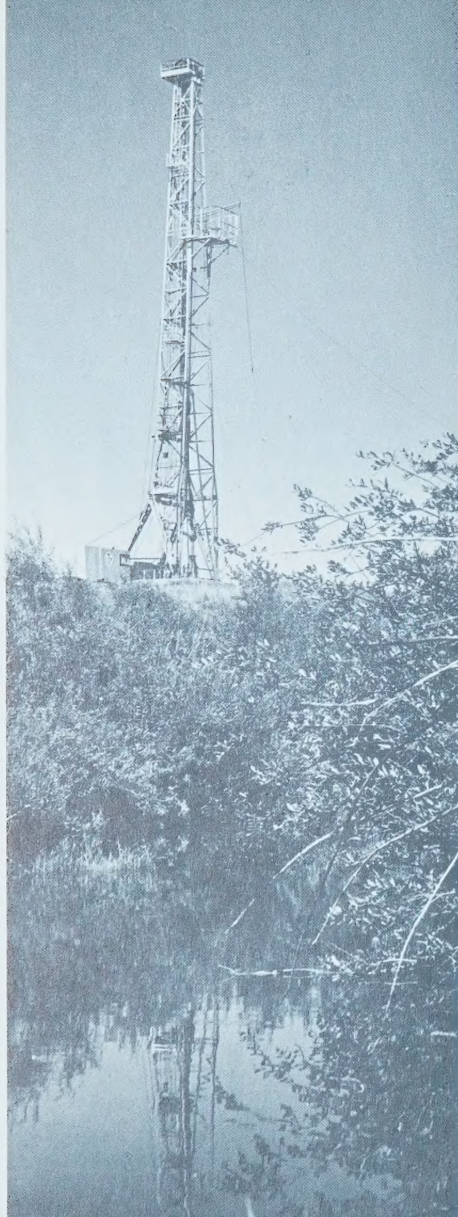
NATIONAL TRUST COMPANY LIMITED
 Calgary, Toronto, Montreal

AUDITORS:

CLARKSON, GORDON & Co.
 Calgary, Alberta

STOCK LISTED:

TORONTO STOCK EXCHANGE
 CANADIAN STOCK EXCHANGE



*Drilling on Provo interest
acreage in central Alberta.*

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

Your Directors present herewith your Company's eighth annual report, including financial statements for the year ended December 31, 1963. The following are the most significant developments:

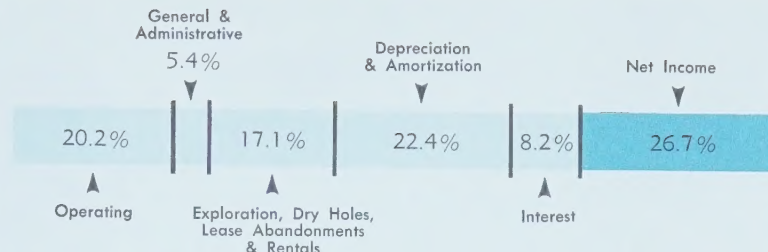
- Net income, after all charges, increased 52% to \$753,463. _____
- Gas production increased 5% to 17.75 billion cubic feet. _____
- Net oil production increased 17% to 425,080 barrels. _____
- Net oil reserves increased 19% to 6,985,000 barrels. _____
- Total gross wells drilled increased 23% to 43, including 35 oil or gas producers. _____
- Provo's affiliated and subsidiary companies reported increases in both income and operations.

These activities are reviewed in detail in the following report.

FINANCIAL

Gross income, after all royalties, increased 10% to \$2,821,432. Operating income, after all operating and administrative costs, increased 8% to \$2,100,238. Net income, after all expenses including depreciation, depletion and amortization, increased to \$753,463.

DISTRIBUTION OF 1963 INCOME DOLLAR



The figures for the first quarter of 1964 indicate a 16% increase in gross income (after all royalties) to \$832,236 and a 15% increase in operating income to \$664,788 compared with the same period in 1963.

PRODUCTION & RESERVES

Gas production in 1963 increased to 17.75 billion cubic feet (48.6 million cubic feet per day) from 16.87 billion cubic feet (46.2 million cubic feet per day) in the previous year.

Net oil and condensate production, after all royalties, increased to 425,080 barrels (1,165 barrels per day) in 1963 from 362,184 (992 barrels per day) in 1962.

Gas production in the first quarter of 1964 averaged 55.9 million cubic feet per day compared with 52.2 million cubic feet during the same period in 1963. Net oil and condensate production in

this quarter averaged 1,369 barrels per day in 1964 compared with 1,158 barrels per day in 1963.

At December 31, 1963, interests were held in 129 gas wells, equivalent to 57 net gas wells, and 726 oil wells, equivalent to 59 net oil wells.

Proved recoverable gas reserves at December 31, 1963, were estimated at 547 billion cubic feet. This estimate excludes all probable reserves.

Proved net recoverable oil and condensate reserves, after all royalties, were estimated at 6,985,000 barrels. This estimate excludes all probable reserves and the heavy gravity oil reserves at Hughenden.

The substantial increase noted in the oil and condensate reserves has resulted from the development drilling program in the Pinto area, Saskatchewan.

ACREAGE

At December 31, 1963, land holdings totalled 5,127,520 gross acres of petroleum and/or natural gas rights in Western Canada and the Northwest Territories. These holdings are equivalent to 1,232,287 net acres at year end compared with 1,159,497 net acres at the end of the previous year.

The policy of continually upgrading the quality of exploratory acreage has been continued.

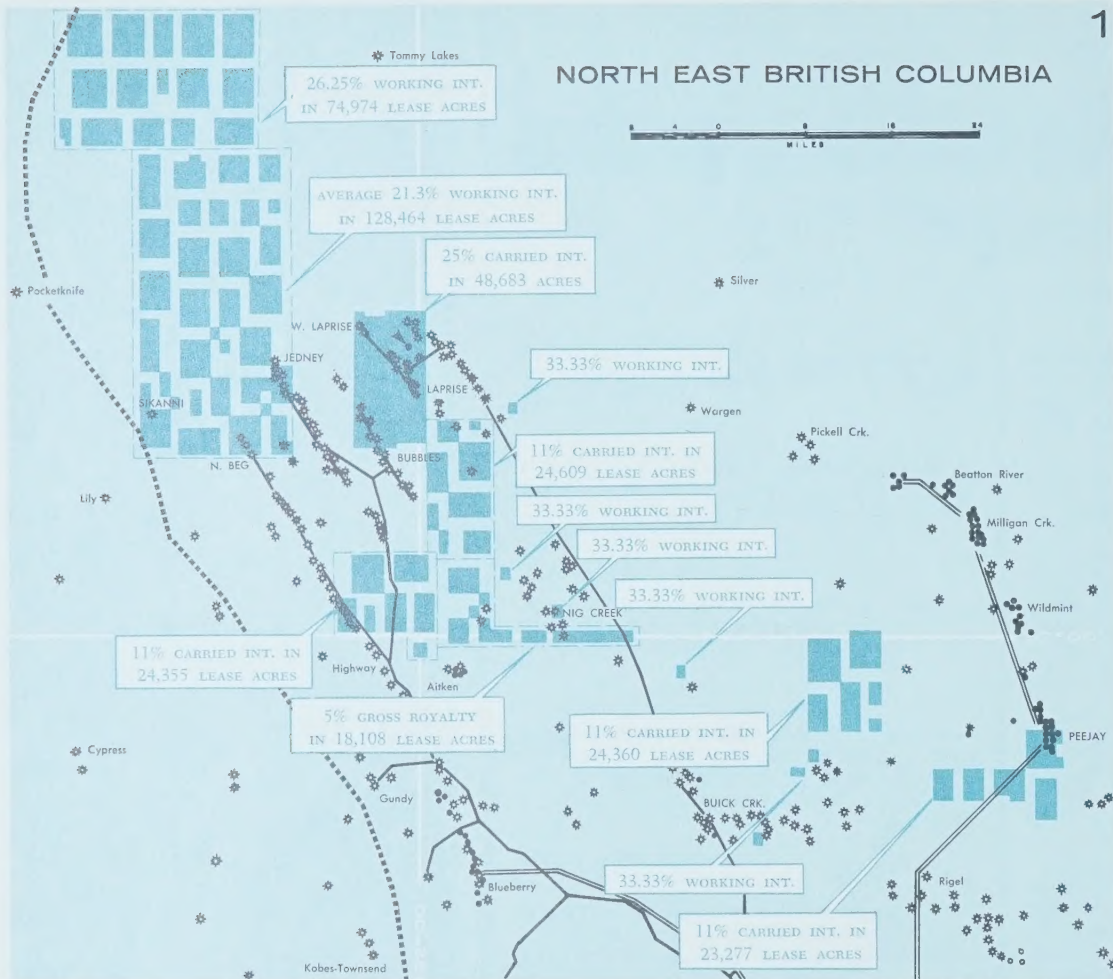
A summary of these land holdings by province is shown in the accompanying schedule and the general location of this acreage is shown on the map of Western Canada which is included in this report.

PROVO LAND HOLDINGS

As at December 31, 1963

	Gross Acres	Net Acres
Alberta	1,478,736	544,994
British Columbia	416,522	85,412
Manitoba	16,118	7,300
Saskatchewan	46,289	15,717
Northwest Territories	3,165,615	577,450
North Dakota	4,240	1,414
1963 Total . .	<u>5,127,520</u>	<u>1,232,287</u>
1962 Total . .	<u>4,991,393</u>	<u>1,159,497</u>

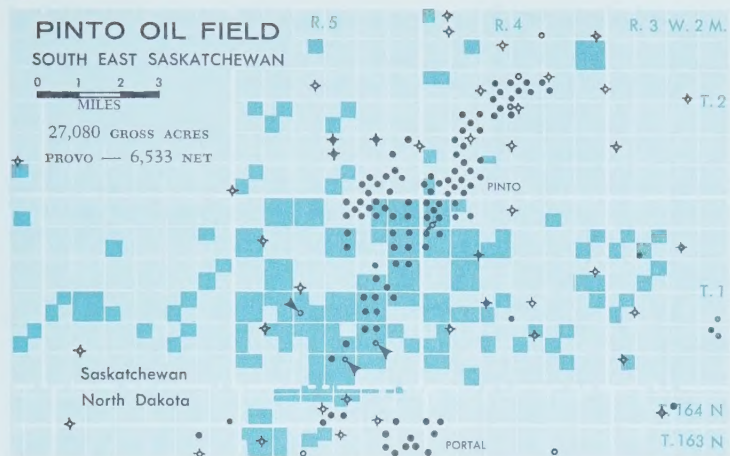
NORTH EAST BRITISH COLUMBIA



Legend

- PROVO ACREAGE HOLDINGS
- Proposed Location or Drilling Well
- Oil Well
- Gas Well
- Oil Well (Abandoned)
- Gas Well (Abandoned)
- Water Injection Well
- Abandoned Well
- Oil Pipeline
- Gas Pipeline
- Gas Pipeline (Proposed)





EXPLORATION & DEVELOPMENT

In 1963, Provo participated in drilling 43 wells (11.8 net) which resulted in 30 oil wells (8.5 net) 5 gas wells (1.9 net) and 8 dry holes (1.4 net).

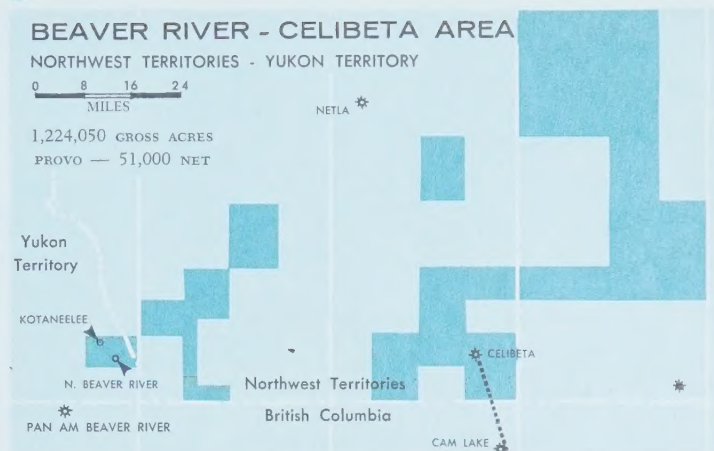
In Alberta, your Company participated in the drilling of 2 gas wells in the Provost Unit in which it holds a 77% interest and held small interests in 2 oil wells drilled in the Loon Lake/Red Earth area and in 6 dry holes.

An 80% interest is held in the 5-well Dorothy Gas Unit which was connected to market outlets late in 1963. Production from this unit began in January and is averaging approximately 3.8 million cubic feet per day.

In British Columbia, Provo participated in the drilling of 5 wells, 3 of which were completed as gas producers. Two of these proved up new gas producing structures on the southern portion of the former Buckinghorse Permit No. 44. Provo's interest in these wells varied from 6.56% to 26.25%, including a 25% net carried interest.

Provo participated in the drilling of 28 wells in Saskatchewan in 1963, all of which were completed as successful oil producers in the Pinto area. At year end, your Company held interests in 33 oil wells in this field, equivalent to 9.24 net wells.

During 1963, 2 wells were drilled on the 1,224,050-acre Yukon/Northwest Territories permit block, in which Provo holds a 4-1/6% interest. The first of these wells, Pan Am Kotaneelee, is located 13 miles northeast of the Pan Am Beaver



River major gas discovery. The Kotaneelee well is suspended at a depth of 11,799 feet. It previously encountered a gas show at 14,407 feet in the Nahanni dolomite (the Beaver River payzone), but mechanical problems made it impossible to continue drilling or to test this zone. The Kotaneelee well was drilled at no cost to your Company.

Provo is participating in the Canada Southern North Beaver River well which is located 4 miles southeast of the Kotaneelee well. The North Beaver River well reached a total depth of 14,495 feet after penetrating 2,340 feet of Middle Devonian Nahanni dolomite. The lower 1,500 feet of this formation proved non-productive. Testing of the upper, more porous, 840 feet has been temporarily suspended due to mechanical difficulties caused by the Alaskan earthquake. At the time of the suspension, gas was being recovered on test. Work will be resumed as soon as ground conditions allow access to the well site.

PROCESSING

PROVOST GAS PLANT

Provo is the major interest holder and operator of the Provost Viking Gas Unit in east central Alberta. During 1963, the unit boundary was extended to include adjoining producing acreage on which 3 gas wells are located. Provo now holds a 77% interest in the enlarged unit. Two additional gas producers were drilled in the unit during 1963, which increases the total unit wells to 55, of which 47 are currently on production.

STEELMAN GAS PLANT

Provo and Dome Petroleum Limited each own 40% of the outstanding shares of Steelman Gas Limited. Steelman owns and operates a gas processing plant and gathering system in the Steelman oil field in southeastern Saskatchewan.

The plant throughput increased to an average of 28.9 million cubic feet per day in Steelman's fiscal year ended September 30, 1963, from 26.7 million cubic feet per day in the previous year. During the year, the plant produced 8.28 billion cubic feet of residue gas and extracted 31,030,000 Imperial gallons of propane, butane, iso-butane and natural gasoline and 1,098 long tons of sulphur. Steelman's gross income for its fiscal year ended September 30, 1963, increased to \$2,604,200 from \$1,995,341. Operating income, after direct operating, administrative and interest expenses, increased to \$1,182,988 from \$595,398 in 1962. Net income, after all charges including depreciation and amortization, was \$267,593 at September 30, 1963, compared with a loss of \$372,067 in 1962.

Plant throughput for the six months ended

March 31, 1964, averaged 32.0 million cubic feet per day compared with 33.2 million cubic feet per day in the same period last year.

EDMONTON GAS PLANT

Provo owns a 66⅓% interest and Steelman Gas Limited a 33⅓% interest in Edmonton Liquid Gas Limited, which operates a liquid gas extraction plant located immediately south of Edmonton, Alberta. This plant extracts propane and butane from pipeline gas produced in the Pembina, Bonnie Glen and Wizard Lake oil fields. These products are marketed in the Edmonton area and in northern Manitoba.

MARKETING

Steelgas Limited, the wholly-owned marketing subsidiary of Edmonton Liquid Gas Limited, operates propane gas distribution facilities in northern Manitoba.

In addition to its original installations in the town of Thompson, Manitoba, new bulk storage and distribution facilities were opened in Flin Flon and The Pas during 1963.

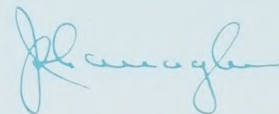
PIPELINES

Provo's wholly-owned subsidiary, Cochin Pipe Lines Ltd., was granted permission by the National Energy Board in 1963 to construct and operate a products pipeline from Regina, Saskatchewan, to The Pas in northern Manitoba.

Negotiations are now nearing completion regarding the construction of this pipeline. If these negotiations are successfully concluded, the pipeline will be built during 1964.

The Directors wish to again express their appreciation for the initiative and co-operation of all the individuals associated with the Company's operations.

On behalf of the Board,



President.

April 30, 1964.

Edmonton Liquid Gas Limited, a subsidiary of Provo Gas Producers Limited and Steelman Gas Limited, owns this gas extraction plant located immediately south of Edmonton, Alberta. This plant extracts propane and butane from pipeline gas produced in the Pembina, Bonnie Glen and Wizard Lake oil fields. These products are marketed in the Edmonton area and in northern Manitoba.



Propane storage and distribution facilities at Flin Flon, Manitoba. These are owned and operated by Steelgas Limited, the marketing subsidiary of Edmonton Liquid Gas. Steelgas has major propane distribution facilities in the northern Manitoba towns of Flin Flon, Thompson and The Pas. The propane sold in this operation is supplied by the Edmonton and Steelman gas plants.





Provo Gas Producers Limited

Financial Statements

PROVO INTERESTS IN WESTERN CANADA

0 50 100 150 200
MILES

Legend

AREAS OF LEASE INTEREST PROVO CROWN P. & N.G. PERMIT

Oil Field
Gas Field
Oil Pipeline
Gas Pipeline
Gas Pipeline (Proposed)
Gas Plant
Marketing Outlet

Statement of Source & Application of Funds

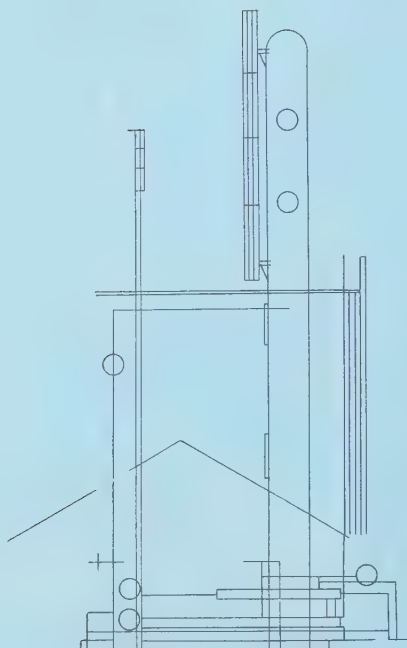
YEARS ENDED DECEMBER 31, 1963 & 1962

	1963	1962
SOURCE OF FUNDS:		
Net income for the year	\$ 753,463	\$ 495,259
Add non-cash charges for depletion, depreciation, amortization, dry holes and leases abandoned	790,110	880,002
CASH generated from operations	\$1,543,573	\$1,375,261
Bank loan	1,600,000	—
Realization of other assets	29,055	9,812
	<u>\$3,172,628</u>	<u>\$1,385,073</u>
APPLICATION OF FUNDS:		
Expenditures for property, plant and equipment	\$1,999,925	\$2,042,914
Reduction in long term debt	308,000	315,000
Investment in affiliated companies	135	426,012
Advances to affiliated companies	1,155,000	—
	<u>\$3,463,060</u>	<u>\$2,783,926</u>
Decrease in working capital	<u>\$ 290,432</u>	<u>\$1,398,853</u>

Provo Gas Producers Limited
and its wholly - owned subsidiaries

CONSOLIDATED BALANCE SHEET

December 31, 1963
and 1962



ASSETS

CURRENT:

Cash	
Short term deposits at cost plus accrued interest	
Accounts receivable—	
Trade	
Affiliated companies	
Subsidiary companies not consolidated	
Inventory of casing and supplies at cost	
Prepaid expenses	

1963	1962
\$ 125,652	\$ 98,904
—	100,165
413,273	309,674
16,060	—
32,326	—
27,063	21,203
6,756	19,584
<u>\$ 621,130</u>	<u>\$ 549,530</u>

INVESTMENTS AND ADVANCES — AT COST:

Shares of Steelman Gas Limited (quoted market value 1963 — \$652,328; 1962 — \$427,452)	
Subsidiary companies not consolidated — shares (Note 1)	
— advances	
Other	

\$ 1,118,170	\$ 1,118,170
400,002	400,002
1,155,000	—
66,170	66,035
<u>\$ 2,739,342</u>	<u>\$ 1,584,207</u>

PROPERTY, PLANT AND EQUIPMENT — AT COST (Note 1):

Producing properties (including well development expenditures) less accumulated depletion of \$1,510,457 (1962 — \$1,118,771)	
Non-producing properties	
Gas plant and gathering system less accumulated depreciation of \$462,489 (1962 — \$334,615)	
Production and other equipment less accumulated depreciation of \$355,092 (1962 — \$285,301)	

\$ 8,710,186	\$ 7,866,587
1,672,212	1,907,236
3,191,220	2,902,244
1,120,862	929,525
<u>\$14,694,480</u>	<u>\$13,605,592</u>

OTHER:

Financing expenses less amounts written off	
Due from officer re purchase of shares	
Refundable deposits	
Preliminary expenditures re proposed pipe line	

\$ 71,582	\$ 78,241
—	36,828
33,760	25,987
127,586	—
<u>\$ 232,928</u>	<u>\$ 141,056</u>
<u>\$18,287,880</u>	<u>\$15,880,385</u>

See accompanying notes.

LIABILITIES

CURRENT:

Accounts payable and accrued charges	\$ 513,171	\$ 199,432
Due to affiliated companies	101,865	53,761
Accrued interest on long term debt	71,689	71,500
Serial Bonds due within one year	300,000	300,000

1963

1962

\$ 986,725

\$ 624,693

LONG TERM DEBT:

Bank loan (Note 2)	\$ 1,600,000	\$ —
5½% Secured Convertible Debentures due July 1, 1970 (subject to sinking fund) (Note 3)	318,500	326,500
6% First Mortgage Sinking Fund Bonds Series A due September 1, 1974 (subject to sinking fund commencing in 1965)	3,000,000	3,000,000
5¾% First Mortgage Serial Bonds Series A due \$300,000 annually	300,000	600,000
	\$ 5,218,500	\$ 3,926,500
Less Serial Bonds due within one year included in current liabilities	300,000	300,000

\$ 4,918,500

\$ 3,626,500

SHAREHOLDERS' EQUITY (Notes 4 and 5):

Capital —		
Authorized — 10,000,000 shares of no par value		
Issued — 7,815,566 shares	\$10,608,653	\$10,608,653
Earned surplus (per Statement)	1,774,002	1,020,539
	\$12,382,655	\$11,629,192

CONTINGENT LIABILITY (Note 6)

On behalf of the Board:

J. P. GALLAGHER, Director.

D. M. WOLCOTT, Director.

\$18,287,880

\$15,880,385

AUDITORS' REPORT

To the Shareholders of
Provo Gas Producers Limited.

We have examined the consolidated balance sheet of Provo Gas Producers Limited and its wholly-owned subsidiaries as at December 31, 1963 and the consolidated statements of income and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us, and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of income and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of Provo Gas Producers Limited and its wholly-owned subsidiaries as at December 31, 1963 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In accordance with Section 122 of the Companies Act (Alberta) we report that no portion of the consolidated loss of the unconsolidated subsidiary company is included in the accompanying consolidated financial statements.

CLARKSON, GORDON & CO.
Chartered Accountants

Calgary, Alberta.
April 10, 1964.

Consolidated Statement of Income

YEARS ENDED DECEMBER 31, 1963 & 1962

	1963	1962
Income:		
Natural gas sales less royalties	\$1,831,498	\$1,673,491
Crude oil sales less royalties	987,983	839,272
Other income	1,951	45,862
	<u>\$2,821,432</u>	<u>\$2,558,625</u>
Less operating, general and administrative expenses	721,194	617,909
Operating income before depreciation, depletion and other charges	<u>\$2,100,238</u>	<u>\$1,940,716</u>
Deduct:		
Interest	\$ 232,284	\$ 246,793
Acreage rentals on undeveloped properties	200,544	188,335
Exploration, dry holes and lease abandonments	281,677	398,982
Depreciation and depletion	625,611	604,688
Amortization of financing expenses	6,659	6,659
	<u>\$1,346,775</u>	<u>\$1,445,457</u>
Net income for the year (Note 7)	<u><u>\$ 753,463</u></u>	<u><u>\$ 495,259</u></u>

Consolidated Statement of Earned Surplus

YEARS ENDED DECEMBER 31, 1963 & 1962

	1963	1962
Balance of surplus at beginning of year	\$1,020,539	\$ 525,280
Add net income for the year	753,463	495,259
Balance of surplus at end of year	<u><u>\$1,774,002</u></u>	<u><u>\$1,020,539</u></u>

Notes to Consolidated Financial Statements

DECEMBER 31, 1963

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The accounts of a partially-owned subsidiary, Edmonton Liquid Gas Limited, and its subsidiaries are not included in the consolidation because in the opinion of management their operating results to date are not representative. A large part of the companies' propane marketing operation in Manitoba commenced in 1963 and significant revisions are planned for the extraction plant in Edmonton. The Company's investment exceeds its equity in the consolidated net assets of Edmonton Liquid Gas Limited by \$558,076, representing consolidated losses incurred from commencement of operations to December 31, 1963.

The net excess of the cost of shares of consolidated subsidiaries over their net book value at date of acquisition is included in property, plant and equipment.

2. BANK LOAN

Letters of intent have been exchanged between the Company and a lending institution providing for the issue and sale of First Mortgage and Collateral Trust Bonds, a portion of the proceeds of which will be used to retire the presently outstanding First Mortgage bonds and the bank loan.

3. 5½% SECURED CONVERTIBLE DEBENTURES

The Deed of Trust and Mortgage securing the 5½% Secured Convertible Debentures provides that debentures which have been redeemed or converted may be applied in satisfaction of sinking fund instalments. Up to December 31, 1963 debentures had been redeemed or converted in excess of sinking fund instalments by \$150,447 of which \$43,400 will be used for the sinking fund instalment due July 31, 1964.

4. CAPITAL

At December 31, 1963 there were options outstanding to Dome Petroleum Limited to purchase shares of the Company's capital stock as follows:

219,000 shares at \$2.20 per share exercisable until August 1, 1964 providing the management contract remains in force.

150,000 shares at \$1.60 per share exercisable on various dates to April 1, 1968.

5. DIVIDENDS

The Deed of Trust securing the Company's long term debt provides that, so long as any of such debt is outstanding, dividends may be paid by the Company to the extent of 70% of its consolidated net earnings accumulated since January 1, 1959.

6. CONTINGENT LIABILITIES

The Company has jointly and severally with Dome Petroleum Limited agreed that in the event Steelman Gas Limited, an affiliate, is unable to retire its then outstanding 6% First Mortgage Bonds on February 1, 1970, it will pay any deficiency required to retire such bonds to the extent of interest paid by Steelman on its 6% Debenture Series A under certain prescribed circumstances. No liability has been incurred under the agreement to December 31, 1963.

The Company was contingently liable as guarantor of the bank loans of unconsolidated subsidiary companies in the amount of \$522,000.

7. INCOME TAXES

Under Canadian income tax law, lease acquisition costs and drilling and exploration expenditures may be deducted from income in the year of expenditure or, if such expenditures exceed the income for the year, the excess may be carried forward to subsequent years. No provision for income taxes is required for the year ended December 31, 1963 and at that date an excess of lease acquisition costs and drilling and exploration expenditures was available to be carried forward against future taxable income.

Statistical Review 1956 - 1963

Financial	1963	1962	1961	1960	1959	1958	1957	1956
Gross Income (after royalties)	\$2,821,432	\$2,558,625	\$2,259,208	\$1,648,420	\$1,292,086	\$ 838,694	\$ 188,118	—
Operating Income (after all operating and administrative expenses)	2,100,238	1,940,716	1,673,614	1,128,702	835,354	456,278	21,083	—
Interest	232,284	246,793	259,689	264,110	170,753	108,279	11,640	8,920
Exploration Costs (including dry holes and lease abandonments)	281,677	398,982	109,145	140,934	129,810	154,098	151,647	113,053
Depreciation and Depletion	625,611	604,688	558,621	321,709	263,446	164,132	56,529	—
Net Income (after all charges)	753,463	495,259	591,513	281,893	151,241	(34,386)	(313,212)	(279,846)
Working Capital (Deficit)	(365,595)	(75,163)	1,323,690	1,451,960	1,693,674	(2,320,191)	(965,297)	803,056
Long Term Debt	4,918,500	3,626,500	3,941,500	3,900,000	4,200,000	—	—	—
Investments in Affiliated Companies (at cost)	2,739,342	1,584,207	1,158,195	1,141,035	1,141,035	1,074,972	28	—
Oil and Gas Development Costs	1,068,790	778,168	495,363	509,609	385,669	157,393	692,449	160,586
Gas Plant and Gathering System Costs	416,850	564,442	232,503	22,231	495,036	405,982	1,516,666	—
Land Acquisition Costs	391,594	541,264	138,735	56,935	6,167	47,951	176,617	6,046,918*
* Includes exchange of shares for proven reserves in Provost Unit.								
Operating								
Gas Production (million cubic feet)	17,754	16,870	16,330	12,410	11,600	8,400	1,380	—
Oil and Condensate Production (net bbls)	425,080	362,184	294,813	162,496	92,714	38,618	21,705	—
Estimated Proved Natural Gas Reserves (billion cubic feet)	547	564	575	586	596	567	575	484
Estimated Proved Oil & Condensate Reserves (net bbls)	6,985,000	5,854,000	4,600,000	3,355,000	2,700,000	1,206,000	1,000,000	—
Wells Drilled	43	35	19	35	11	8	20	3
Net Producing Gas Wells	57	54	49	44	42	38	33	32
Net Producing Oil Wells	59	51	46	27	21	9	5	1
Acreage - Gross	5,127,520	4,991,393	3,043,980	1,228,284	1,209,675	984,867	773,396	394,975
Acreage - Net	1,232,287	1,159,497	988,273	464,775	439,655	492,294	468,892	323,216

